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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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Pricing and Procurement )

Of Default Service\_\_\_\_\_ ) D.T.E. 99-60-A

COMMENTS OF THE ASSOCIATED INDUSTRIES OF MASSACHUSETTS

REGARDING THE PRICING AND PROCUREMENT OF DEFAULT SERVICE

On May 25, the Department held a technical conference regarding the Department's draft proposal addressing certain essential components associated with the pricing and procurement of default service. The Department also stated that it would accept written comments on questions and issues raised at the technical conference by May 31, 2000.

Below is a summary of the Associated Industries of Massachusetts (A.I.M.) comments which were expressed at the technical conference, along with some additional comments concerning new issues raised at the conference. A.I.M.'s comments are categorized in the following manner: (1) Six Month and Average Monthly Price Options, (2) Gaming, (3) Bids, Administrative Costs, and D.T.E. Oversight, and (4) Customer Class Differentiation.

I. Six Month Fixed Price and Average Monthly Price Options

As A.I.M. repeatedly stated during the technical conference and in its comments on Massachusetts Electric Company's filing, D.T.E. 00 45, the wholesale market is not fully functional limiting, if not eliminating, choice of a competitive supplier for customers. Therefore, A.I.M. believes that a transition period is critical for customers. Without a transition period, customers will experience simultaneously rate shock and the inability to mitigate such increased costs.

A.I.M. is supportive of the Department's pricing options and believes they should be available to all customers with the following exception; for residential and small commercial and industrial (C&I) customers, (i.e. G1's), the option should be the six-month fixed price option. For small C&I's, who may not be as educated or experienced in this area, a monthly price that varies will be confusing and overly burdensome. Perhaps in time, as more choices are available and customers become more familiar with the market, a monthly variable price could also be an option to these small customers. However, during a transitional period, perhaps one to two years, these customers should be given a six month fixed price.

A.I.M. also believes that customers who have entered the competitive market should

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be given the opportunity to return to the six month option, if, as the Department suggests, it is at the start of the six month term. Some commenters suggested that once customers enter the competitive arena, they should only have the option of a monthly variable price if they return to default service. We believe that this would violate the intent of the Electric Industry Restructuring Act which clearly states that customers should be given a six month fixed price option. Of course, due to timing, some customers may have to

take the monthly option before taking the six-month option. However, the customer should know the six month option is still available and have the ability to make an informed decision on whether to take the six-month option or remain on the monthly option.

Regarding informed decisions, A.I.M. believes that education is a key component in the Department's pricing options. Customers must understand what each option is, as well as its limitations and exceptions. The Department should initiate a collaborative to work jointly on this education issue. This has worked well on the gas side where a group effort produced informational brochures and literature for customers. A.I.M. would very much like to participate and work with other parties so that all customers are well informed and prepared for these pricing options and competitive choice.

#### II. Gaming

A.I.M. is supportive of the Department's anti-gaming provisions. Going forward, it is important that deferrals are reduced as much as possible. Allowing suppliers to return customers at any time, especially during the summer months when prices are high, will produce costs that other customers would incur. Once again, education is crucial in this area. Customers need to fully understand that by choosing the six month option, they are required to stay put or pay the price if they leave before the term ends. It is important that these terms are clearly disclosed on a supplier's contract, as well as in educational materials distributed by the distribution company. The same should apply to the monthly pricing options. Again, customers need to fully understand how it works and the implications of price fluctuations.

#### III. Bids, Administrative Costs, and Department Oversight

A.I.M. believes that the term of default service should be six months to a maximum of one year. Customers should be provided at least two months notice regarding what the price will be for the six-month period and the variable month terms. Once customers are familiar with this process, perhaps a one-month notice may be sufficient. The Department should monitor this closely through its consumer division. Customers will complain if they believe that they are not being adequately informed about choices and the implications of their choices.

Regarding administrative costs, it was estimated that such costs may be as small as 2/10 of a mill. To require a rate case for each company so that these costs are transferred to the default service price will be timely, costly, and will not create more choices for customers. If these costs increase and could have some significance on default service pricing, then transferring such costs would be warranted. This was done during the unbundling of gas services and did have an effect on the CGA.

Lastly, we believe that during this period where there does not appear to be a competitive wholesale market, the Department should play an active role in the procurement of default service. The Department must be there to prevent rate shock and to provide the best price for customers until there is a functioning wholesale market. A.I.M. is aware that changing prices will have an effect on the market and bring with it uncertainty for those suppliers who participate in the retail marketplace. However, higher energy costs with no available competitive choices harms customers. We believe that the Department's primary duty is to protect

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customers who will be directly impacted by these costs. If that entails rejecting bids or deferring costs, the Department has the authority to do so in order to ensure ratepayers do not suffer sudden and serious rate impacts. Again, A.I.M. stresses that these actions should only take place during a transition period, that is until the wholesale markets are competitive, while by its nature would alleviate many, if not all, of these concerns.

#### IV. Customer Class Differentiation

A.I.M. is very pleased that the Department, on several occasions during the conference, requested quantitative data regarding the different costs associated with serving C&I and residential customers. As A.I.M. stated, in the long-term differentiating between customer classes may produce the right price signals in the market as these are the true costs of serving such customers. However, at this point, we ask that the Department proceed with extreme caution. If it is more costly to serve small C&I and residential customers, then these customers will have higher costs with no opportunities to mitigate these serious impacts, due in some measure to an ill-functioning competitive wholesale marketplace. Of all customer groups, these small sized rate classes will have little if no choice to enter the competitive market in the near term. In the long term, this may be the way to stimulate competition for all classes, however, at this point in time, it may only accelerate a difficult situation.

A.I.M. would like to thank the Department for the opportunity to participate in this proceeding both at the technical conference and by written comments. Once the wholesale

market begins to function, as we all hope it will soon, the pricing and procurement of default service will play a key role in the development of the retail marketplace resulting in lower costs and creating more choices for customers.

RESPECTFULLY SUBMITTED

By: Judith A. Silvia, Esq.

Associated Industries of Massachusetts

222 Berkeley Street

P.O. Box 763

Boston, MA 02117-0763

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